

APPROVED FOR RELEASE: 2007/02/08: CIA-RDP82-00850R000100010027-0

15 JANUARY 1979

(FOUO 4 )

1 OF 1

FOR OFFICIAL USE ONLY

JPRS L/8220

15 January 1979

TRANSLATIONS ON WESTERN EUROPE  
(FOUO 4/79)

WEST

EUROPE

U. S. JOINT PUBLICATIONS RESEARCH SERVICE

FOR OFFICIAL USE ONLY

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22151. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Indexes to this report (by keyword, author, personal names, title and series) are available through Bell & Howell, Old Mansfield Road, Wooster, Ohio, 44691.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

<b>BIBLIOGRAPHIC DATA SHEET</b>		1. Report No. JPRS L/ 8220	2.	3. Recipient's Accession No.	
4. Title and Subtitle  TRANSLATIONS ON WESTERN EUROPE, (FOUO 4/79)				5. Report Date 15 January 1979	
7. Author(s)				6.	
9. Performing Organization Name and Address Joint Publications Research Service 1000 North Glebe Road Arlington, Virginia 22201				8. Performing Organization Rept. No.	
				10. Project/Task/Work Unit No.	
				11. Contract/Grant No.	
12. Sponsoring Organization Name and Address  As above				13. Type of Report & Period Covered	
				14.	
15. Supplementary Notes					
16. Abstracts  The serial report contains political/economic information on West European energy, finance and trade policy matters as well as developments and trends in the doctrine, programs and problems of the major communist parties, including their relations with communist parties outside the West European area.					
17. Key Words and Document Analysis. 17a. Descriptors					
Political Science		International Affairs	Luxembourg		
Sociology		Austria	Netherlands		
Propaganda		Belgium	Norway		
Economics		Canada	Portugal		
Energy		Cyprus	Spain		
Industry		Denmark	Sweden		
Trade		Finland	Switzerland		
Finance		X France	Turkey		
		Greece	United Kingdom		
17b. Identifiers/Open-Ended Terms		Iceland	X West Germany		
		X Italy			
17c. COSATI Field/Group 5C, 5D, 10					
18. Availability Statement For Official Use Only. Limited Number of Copies Available From JPRS.			19. Security Class (This Report) UNCLASSIFIED		21. No. of Pages 29
			20. Security Class (This Page) UNCLASSIFIED		22. Price

FORM NTIS-35 (REV. 3-72)

THIS FORM MAY BE REPRODUCED

USCOMM-DC 14852-P72

FOR OFFICIAL USE ONLY

JPRS L/8220

15 January 1979

## TRANSLATIONS ON WESTERN EUROPE

(FOUO 4/79)

CONTENTS	PAGE
FRANCE	
Giscard's Recent Monetary Policy Reviewed (Marc Ullmann; PARIS MATCH, 15 Dec 78) .....	1
Air Transport Problems, Outlook Reviewed (Claude Abraham; AIR & COSMOS, 25 Nov 78) .....	6
Briefs	
Training for Corsican Extremists	11
Missile Regiment Operational	11
ITALY	
ENI's 5-Year Investment Plan Announced (Fabrizio Dragosei; CORRIERE DELLA SERA, 18 Nov 78) ..	12
WEST GERMANY	
Repatriation of Ethnic Germans From USSR Declines (FRANKFURTER ALLGEMEINE, 14 Dec 78) .....	15
Expert Views Economic Growth, Problems for 1979 (CAPITAL, Dec 78) .....	17
Subsidized Research To Create New Jobs (Werner Heilemann; STERN, 23 Nov 78) .....	27

- a -

[III - WE - 150 FOUO]

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

FRANCE

GISCARD'S RECENT MONETARY POLICY REVIEWED

Paris PARIS MATCH in French 15 Dec 78 pp 118-119

[Article by Marc Ullmann: "Why Giscard Ventures To Hitch the Franc to the Mark"]

[Text] "Giscard has lost his mind. France's rate of inflation is 10 percent while Germany's is only 3 percent. And yet he is convinced the franc will maintain its value against the mark." Was this comment made by Francois Mitterrand? Not at all. By Georges Marchais then? No, neither by him. It was made by a former Cabinet minister belonging to the parliamentary majority. And furthermore, he was speaking on behalf of several of his colleagues.

Some high-level officials express the same view but in more polite terms. One of them told me on the very day of the European summit meeting in Brussels: "The only big question is whether the French economy is strong enough to support the recently approved European Monetary System (EMS)." And since he knows me very well, he did not hesitate to add: "I am worried."

This man's line of reasoning is quite simple. It can be summarized in two sentences. First of all, the French economy is still too weak for the franc to maintain constant parity with the mark. Secondly, if the EMS authorizes frequent parity adjustments, it will not be of much use. Conclusion: France should not have joined this club if its rules are inflexible; and it will be of no use if its rules are flexible. If it were not for the fact that I highly respect this man, I would characterize him as a Marxist, a Marxist of the Groucho school. I refer to the oldest of the Marx brothers, the one with the big cigar and black mustache, who used to say: "I'm not interested in joining any club that would accept me as a member."

Such joking aside, this is indeed a serious subject. We shall begin by asking ourselves why Giscard d'Estaing has been so patently determined the past 6 months, and why he displayed so much will power Tuesday.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

His reasons, as I see it, can be grouped into three principal categories: intellectual reasons, foreign policy reasons, and lastly and above all, domestic economic policy reasons.

Intellectually, the president of the republic is unhappy at the fact that for the past few years currency exchange rates have been fixed from day to day on foreign-exchange markets. In other words, the rate of exchange is no more stable than the price of meat or fish. This rate is also vulnerable to any kind of rumor and its fluctuations can be abrupt and unrelated to the long-term evolution in the economic situation. This state of affairs is detrimental to international trade because importers generally settle their accounts on a 90-day basis and do not have the slightest idea as to what the final amount of their bill will be. Manufacturers suffer from the repercussions of this uncertainty. They are reluctant to count on their contracts abroad and hence to expand their exportable production which, under other circumstances, would create jobs.

To break this vicious chain, Giscard d'Estaing, in agreement with West German Chancellor Helmut Schmidt, was convinced that European currencies had to be tightly linked to each other within a "zone of monetary stability." To prevent speculation from causing the structure to collapse, the EMS calls for establishment of a common fund which will be the largest ever created anywhere in the world. To set up this fund, each member country will contribute part of its reserves, in other words, part of the "pile" of gold and dollars it retains to finance its foreign trade. An additional equivalent amount will also be contributed by each country, but this time in national currencies. The fund will be denominated in a new European Currency Unit, or ECU. The total amount of the fund will be much greater than the amount any speculator or group of speculators can ever hope to amass. Consequently, the value of the different European currencies will revert to being the business of governments.

This does not mean that a common currency will be created right away, or even that the relative value of our different currencies will be unalterable. If, for example, prices continue to rise more in France than in Germany, the franc will, after all, definitely have to drop and the mark rise.

But this drop and this rise will be negotiated within European institutions and governments will thus be obliged to determine a common policy together. This is where the foreign policy aspect of Giscard's reasons comes into play. For a long time, too long a time, the French and German governments wrangled over a matter of principle. Officials in Bonn contended that application of coordinated economic policies had to precede the pooling of monetary resources. Officials in Paris rebutted that such pooling was an indispensable prerequisite to implementation of concerted policies. This quarrel has now been settled: both actions will take place concurrently and, therefore, the task of organizing Europe will be able to move forward, at long last.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

From the monetary standpoint, such organization is especially necessary in view of the dollar's instability. Every time the dollar drops, greater pressure is generally exerted on the mark than on the franc. As a result, the disparity between German money and French money broadens. Now that the mark, the franc, and several other European currencies are linked, they will fluctuate more or less in concert and the amplitude of this fluctuation should be less. The bigger the basin, the smaller the waves.

This aspect of the system is of particular interest to Schmidt. He is sick and tired of having Americans target solely the German mark, along with the Japanese yen. Constant reevaluation of the German currency has certainly not prevented German manufacturers from selling their products abroad, but they do so at a lower profit each day. Should the mark be drawn slightly downward by weaker currencies, profits would increase once again and new factories could be built in Germany.

For converse reasons, Callaghan is hesitant to tie the pound's fate to the mark's fate. He believes, and rightly so, that this would ultimately restrict his government's freedom of action. He has decided, therefore, to keep Great Britain partly aloof from the EMS. As for Italy, after a day of sharp European bargaining, it was still not known Tuesday night whether that country would be satisfied with the compensations it has been offered.

Giscard d'Estaing has no such hesitancy. In his view, it is better for France to be in the company of good rather than poor students. Nor is it by mere coincidence that he has asked [Prime Minister] Barre to follow a policy which subordinates everything to improving the French economy's competitive posture. A policy designed precisely to bring France closer to Germany, in other words, closer to the best student in the class.

This thus brings us to the economic aspect of Giscard's line of reasoning. If France today is in a less favorable posture than Germany, it is because it was unable, before the oil crisis, to make the necessary change in its industries. Why was it unable to do this? Because the franc was constantly undervalued and firms could export without too much trouble. For the past 2 years, the president of the republic and his prime minister have sought to accelerate such change instead of curbing it. The current imperative requirement is to make France competitive in world markets. Giscard d'Estaing is convinced this is the one and only way France can gain "a key position among the leading industrial countries." Should it fail to do so, France would inevitably slide downhill into a situation of financial indebtedness and industrial subcontracting, in short, into a status of dependency and underdevelopment. In other words, France still cannot see the light "at the end of the tunnel" and there will be no "eleventh hours." The recovery plan launched by Barre is but an initial step. Success demands a lengthy period of self-discipline and association with Germany is tangible proof of such discipline.

FOR OFFICIAL USE ONLY



FOR OFFICIAL USE ONLY

That leaves the essential question: Is France in a position to keep pace with its German partner? To answer this question, one must make a diagnosis of our economy. I hereby submit my diagnosis to PARIS MATCH readers. It is a conscientious analysis based on a detailed survey I have been conducting since September. This diagnosis is as follows: the French economy is improving somewhat but this improvement is slow and we have long difficult years ahead of us.

I shall start my diagnosis with the price situation. Admittedly the decontrol of industrial prices did not trigger excessive increases and price indexes for August, September, and even October were favorable. Admittedly by sharply increasing public rates and fares in the second quarter of the year, the government did not hesitate to "bite the bullet" early and that shock is now behind us. Admittedly companies took advantage of the decline in raw materials to build up their stockpiles at reasonable prices over a period of several months, and these stockpiles will be most welcome next year. Admittedly, the cost-of-living increase in 1979 should be below 8 percent, barring some serious incident on the oil front. The fact remains, however, that 8 percent or even 7 percent, is still high, and at any rate, it is double what the Germans will have. We must, therefore, continue our efforts. For how long? For several years inasmuch as experience shows that it is very difficult to check rising prices by more than 1 percent per year on the average.

I shall now consider our foreign trade. Admittedly we once again have a favorable balance of trade and France now sells as much merchandise abroad as it purchases there. Yet upon scrutinizing our overall trade picture, we notice that the distribution of our trade by country and by product is not favorable. For instance, geographically speaking, we have a trade deficit with the most advanced industrial countries and a trade surplus with the less developed countries. For instance, sectorially speaking, we import more processed goods than we export. These two weaknesses show that our industry has far from completed its necessary changes, or as we say today, its "redeployment." It will take many more years to complete these changes. Years during which even a revival of private investment will not reduce unemployment substantially.

To enhance their competitive posture in world markets, large companies are now obliged--and will be obliged for a long time to come--to simultaneously make decisions to create jobs in one place and close plants in another. In some instances, reductions in personnel may possibly equal or exceed the number of new personnel hired. This is actually what is happening at Rhone-Poulenc. While that firm is making both useful and considerable capital investments in new production units, it is, however, also making personnel cuts in its old plants. This example shows us why establishment of new companies has become a currently popular theme. When a new business starts operating, it has, by definition, no excess personnel and any possible growth has repercussions, in toto, on the labor market. Unfortunately, old habits also change slowly in this field, and several tens of thousands of heroes ready and willing to start their own business cannot be found overnight. This shows why action to combat

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

unemployment must be a national priority. It also means that, for the president of the republic, the maintenance of economic discipline is not sufficient per se.

Since we face the prospect of a long and drawn-out effort, justice and prudence both dictate that all sacrifices be shared as equitably as possible. Three examples amply demonstrate this requirement. First, should this or that region be plunged into a severe economic depression, it is feared that this would cause an explosion that could politically trigger strikes in the public sector. Secondly, if an excessively lengthy period of unemployment and idleness were to drive many young men and women to desperation, some of them might well yield to the temptation of Italian-style terrorism.

Thirdly, if wage earners should ever get the feeling that they alone were carrying the burden of all necessary transformations, no lasting consensus could emerge in our country.

All things considered, France's ability to join forces with Germany depends on maintaining a rigorous economic policy for several years. Yet such an effort can be sustained only if the chief of state is able to forego the interests of some of this electorate in order to satisfy the aspirations of those who will probably vote for his opponent again in 1981. I believe Giscard d'Estaing is the first one to admit this. His loyal supporters insist such would be his ambition for a second 7-year term.

COPYRIGHT: 1978 par Cogedipresse SA

8041

CSO: 3100

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

FRANCE

AIR TRANSPORT PROBLEMS, OUTLOOK REVIEWED

Paris AIR & COSMOS in French 25 Nov 78 pp 38-39, 56

[Article by Claude Abraham]

[Text] Mr Claude Abraham, the director general of Civil Aviation, was the guest of honor of the UCCEGA (Union of Chambers of Commerce and of Airport Management) during the last general meeting of this organization, which was held in Paris on 15 November. He agreed to address the current problems of French air transport but, rather than making a full report, he chose to make some comments. We reproduce their substance below and thank the UCCEGA for having sent them to us.

A Positive Balance Sheet

The year 1950 saw the renaissance of French air transport. In 1960, Air Inter was born. In 1970, regional aviation was developed, for 1980, there is a question mark. Every 10 years, the director general of Civil Aviation observed, French air transport reaches new thresholds.

The first positive element to bring to the balance sheet is the important share of world traffic that French air transport has been able to maintain. In 1950, France was the fifth "aviation power" in the world, behind the United States, the Soviet Union, Canada and Great Britain. It had only 3 percent of world traffic, and that was sovereign traffic with its colonies. Today, France is still in fifth place, behind the same countries (although their order has changed), but it has 4 percent of world traffic, having in the meantime "achieved its reconversion," since it no longer depends on sovereign traffic.

On the level of infrastructure, today Paris has the second largest airport in Europe and the sixth largest in the world. Sixty-five French cities have air service. Abroad, 170 airports in a hundred or so countries can be reached by French airplanes. This result, Mr Abraham emphasizes, is not at all bad, if we take into consideration the fact that during the same period other countries saw their share of international traffic grow.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

The growth of freight constitutes a second positive element in the balance sheet which can be drawn up. This kind of activity is recent in France. It represents at the moment from 30 to 40 percent of tonnage of French long-lines carriers.

Another positive element, but a completely new one, is the penetration of air transport throughout France. Last year, 6.5 percent of the French travelled by air at least once; that represents 3.5 million passengers. Only a few years ago, the penetration rate was only 4 percent. The growth is substantial, but it could be greater. Indeed, we note that 14 percent of the Paris population travel by plane once a year, that is, one Parisian out of six. Fifty-six percent of the trips are made for personal reasons; young adults account for almost half of the passengers. This penetration of air transport is very strong at present in the northern and eastern sections of the country.

What are the less positive elements in the balance sheet? Essentially, tourist travel and, in particular, contract flights by chartered aircraft. There, we see that the French flag occupies a very small place, although that observation must be qualified: in the case of Paris, outgoing charters are strong, but incoming charters are weak. In the provinces, both directions are weak. In this area, Mr Claude Abraham remarks, it must be noted that the French companies, whether public or private, suffer from a considerable handicap: compared to their existing or potential competitors, their costs are much higher.

#### A New Form of Competition

The environment for air transport in France has developed considerably, observes the director general of Civil Aviation, who foresees the coming of "a completely different world, of which we are seeing only the dawn."

The first characteristic of this development is the new form that competition has assumed. It works on three levels. First, it is represented by the transporters in the developing countries. Not only are they asking, and rightly so, for their just share of the traffic--that is, for the traffic in their own country--but they also are entering the world market with such technical quality, prices and ambitions, that they become very strong competitors. This is particularly true of the countries of Southeast Asia: Singapore Airlines, Korean Airlines, etc.

Secondly, these are countries with socialist economies. They have a very comprehensive and well conceived idea of their own interests and of their balance of payments. They are ready to use the means necessary in order to play an essential role.

A third form of competition is represented by the position of the United States. In 1955, American national and international transport accounted for 78 percent of world air traffic. In 1978, their share was reduced by

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

about half (that is, to 38 percent) and they now account for only 18 percent of international traffic. In 20 years, the Americans have therefore lost half of their dominion and, consequently, of their superiority. But they have retained the habits they had when they were alone. They still want to regulate world transport and have undertaken a strategy to reconquer the market. To do this, they intend:

--to rely upon dynamic, young and very productive companies in order to launch an assault on the world market. It should be understood that between the best managed of the American companies and the whole of the European ones, the difference in costs can reach 35 percent.

--to support unconditionally the fares of supplementary air transport companies. The support accorded by the American government to these companies is explained all the more by the fact that the fleet of these companies is considered one of the elements of its national defense.

--to conduct a policy of low fares, which is all the more popular since consumerism is now fashionable.

All the elements for success have thus been brought together to permit the Americans to win the battle for air transport. In 18 months, Dr Kahn, the director of the CAB, Civil Aeronautics Board, has overthrown all the traditions and defenses of the world of international air transport. In addition, he has found allies in Europe, objective or resigned ones, who accept willy-nilly the new rules of the game.

Originally, each country proceeded to an exchange of air routes. The system was in balance. Each country controlled the capacities established by the companies. The fares which were established were discussed in the IATA and the final rates were set by the countries of origin and of destination.

Today, the whole system has blown apart with the new bilateral agreements: agreements with Great Britain (Bermuda II), then with the Netherlands, Belgium, Israel and the FRG. The rule, today, is that of the freedom, for an American company, to go anywhere at the price it chooses. On the other hand, the European companies do not have absolute freedom: they have only received a greater number of cities which they are permitted to serve in the United States. There is therefore an imbalance. Lufthansa, for example, has obtained the right to serve 11 cities in the United States, while the Americans can go anywhere they want in West Germany.

To be even more certain that there will not be any more regulation for the American companies, the Congress of the United States has voted to abolish the CAB in 5 years. It was a real tour de force!

The last element in this wild competition: the IATA. This organization has adopted new statutes in order to survive in the face of the United

FOR OFFICIAL USE ONLY

States. It is not sure that they will succeed. Nevertheless, there is now an "a la carte" fare system.

Liberalization and Watching Fares

For us, the director general of Civil Aviation asks, what are the consequences of such a situation? We should become aware of a certain number of requirements.

We transport 3 million passengers. That represents a clientele large enough to make itself heard. They must be satisfied.

Besides, it will be difficult for us to make passengers accept complicated fare structures, incomprehensible ones.

In the third place, we must take into consideration the very great permeability of frontiers. What happens among our neighbors is very contagious. We are more obliged to take into account the development going on around us. "Splendid isolation" is no longer possible.

These new requirements have immediate consequences. We cannot hope to maintain the protectionism of the past, Mr Abraham declares. French policy must change completely in order to respond to fiercer and fiercer competition. We have therefore changed our regulatory system to a significant extent. This is a reality which is not yet too well known.

Nonscheduled intra-European flights have now been greatly liberalized, with a few minor reservations for reciprocity. "We are perhaps a little too liberal." France is the one country in Europe which has the greatest number of airports open to international traffic (180 permanently and 160 on request). This is probably excessive. In the area of scheduled long-lines flights, liberalization is also increasing. This is an irresistible development. It also exists in the case of overseas flights: for the Carribean, the destination is completely open.

Liberalization then exists and it will grow. That means we must take care to balance the rights between different countries.

Another characteristic: watching fares will remain necessary. I do not think, Mr Abraham continues, that we can let just any marginal transporter offer anything at all on the market because he enters it from time to time. But we cannot allow archaic fare structures to continue to exist. We must therefore "police" our affairs with discernment.

Finally, the third and last characteristic of the future of air transport: the situation of the French companies.

Each time we ask for the freedom to do something, we must ask for the freedom not to do it. In other words, we must not impose restrictions on the

FOR OFFICIAL USE ONLY

public without compensating it. Competition and constraints which are too great are irreconcilable. We must also understand that there is a problem of choice between competition with its possible consequences and a controlled regime affecting a certain number of domestic destinations or of coastal traffic.

Another point to be mentioned in the situation of the French companies: the problem of new charters. It is not shocking to turn towards a system in which initiatives would be more greatly encouraged than they are today. But we must accept the consequences. The disappearance of a company or a line should not be a national tragedy. It will also be necessary for the "tour operators" to become conscious of their role in this respect. It must be understood that an aircraft becomes profitable after 2,500 or 3,000 hours and not after 1,200. The airline companies and the "tour operators" must work together to fill the planes.

As for the companies Air France and UTA, they will have to become conscious of the necessity of adapting to a more and more competitive context.

"Thinking Small"

The director general of Civil Aviation concluded his remarks by launching an appeal. The productivity of an airline company; he said, is a collective responsibility. It is too easy and too unjust to say that the personnel is too well paid. There are no small economies in air transport. Any increased expense, as justified as it may be in appearance, is an extra weight that the companies will have to drag along. More than ever, Mr Abraham believes, the moment has come to "think small." This is an essential objective that must not be lost sight of. It concerns all the partners of air transport, including airports. This is an appeal for a strong effort that must be made now because the air transport battle will be a hard one.

COPYRIGHT: Air & Cosmos, Paris, 1978

8956  
CSO: 3100

FOR OFFICIAL USE ONLY

FRANCE

BRIEFS

TRAINING FOR CORSICAN EXTREMISTS--A report by the DST [French Internal Security Service] indicated prior to [Prime Minister] Barre's departure for Corsica that the extremists on the island had recently undergone training in Palestinian camps in Iraq, Syria and Lebanon. [Text] [Paris PARIS MATCH in French 22 Dec 78 p 117]

MISSILE REGIMENT OPERATIONAL--The first of six regiments of the army's ground forces to be equipped with Roland surface-to-air missiles is now practically operational in the Verdun region. The regiment is provided with the Roland I (clear-weather version) mounted on an AMX-30 chassis. Each vehicle carries 10 missiles, two of which are always ready for firing. [Text] [Paris MONITEUR DE L'AERONAUTIQUE in French Dec 78 p 6]

CSO: 3100

FOR OFFICIAL USE ONLY



FOR OFFICIAL USE ONLY

ITALY

ENI'S 5-YEAR INVESTMENT PLAN ANNOUNCED

Milan CORRIERE DELLA SERA in Italian 18 Nov 78 p 11

[Article by Fabrizio Dragosei: "The ENI Will Invest 8,800 Billion Lira in Energy in 5 Years"]

[Text] Rome--For the 5 years from 1978 (included) through 1982, the ENI [National Hydrocarbons Agency] group will have total financial needs of 11,500 billion lira. Of this sum, 10,000 billion is earmarked for investment. These figures are contained in the program report of Minister of State Participations Bisaglia. Among the appendices, which have not yet been made public, are ENI's programs for the 5-year period 1978-1982. At the end of 1982, the debt will be equal to 73 percent of commitments, a level which is defined in the report as "notably higher than the level for companies which operate in analogous sectors and with which ENI finds itself competing in the national and international markets."

In the last 12 months, the group's short-term debt has decreased by about 1,000 billion, going from 2,300 to 1,300 billion. There is, however, a risk that the agency's financial situation will become difficult in the years to come, especially because of the inadequacy of the endowment funds and the delay in paying them out. And the demanding investment program, which in the report is judged essential for the country's energy policy, could run jerkily also because of failure to pay out the funds: in other words, "unless there is an unforeseen improvement in self-financing, a proportionate reshaping of the investment programs, for that part of them whose implementation has not yet been started," would be made necessary.

To be precise, investments of 10,039 billion lira, including 6,155 billion in Italy, are forecast for the 5-year period. In toto, a little more than 8,800 billion will be earmarked for investments in the sector of energy sources and related activities. One thousand billion will be invested in chemicals, 77 billion in textiles, and 41 billion in the mechanical industry.

The total of net commitments, which at the end of 1977 came to 8,952 billion, will rise at the end of 1982 to 14,479 billion, 73 percent of which (the percentage today is 71 percent) will be covered, as was said above, by borrowing.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

General examination of the situation of the ENI group ("which also has constantly shown net-profit rates higher than those of the 747 enterprises in the Mediobanca sample") reveals "chronic loss situations in the chemical sector, textiles, and in the refining and distribution activities of the petroleum sector." In the 2-year period 1978-1979, the chemical and textile sectors lead one to foresee negative results of more than 650 billion lira. One also reads in the document that in these sectors, it is a priority objective to reestablish conditions of efficiency and cost-effectiveness in management."

In the coming years, the group will move along several precise strategic lines indicated in the report:

Internationalization--To buy raw materials in a more effective manner; to obtain a part of the necessary financial resources in the international market; to sell more the products and services of the group's firms (between 1975 and 1977, foreign billings increased 90 percent, topping 3,000 billion; in the first 6 months of 1978 they reached 2,450 billion).

A New Investment Policy--Seeking greater flexibility of the installations.

New Research Policy--To enrich the technological content of the product lines.

Accentuated Action in the South.

Diversification of Product Lines--The document worked out by the ENI and the Ministry of State Participations also takes under examination the programs for the individual sectors in which the state petroleum agency operates.

Energy Sources--For the mineral sector, the ENI will invest 3,849 billion in the 5-year period, both in Italy and abroad. For refining of petroleum products, investments of 306 billion in Italy are forecast; they will be used, among other things, for increasing the yields of intermediate distillates (gas oils, etc.), for which there is greater demand. As regards nuclear energy, the ENI will be involved only in the area of the fuel cycle, "taking a position as a national broker in this sector." The petroleum agency is going heavily into coal (investments of 142 billion), geothermy (investments of 77 billion), and solar energy (3 billion to the end of 1979).

Chemistry--Ninety percent of the anticipated investments in this sector are earmarked for restructuring of the existing establishments. The program is to go more heavily into refined chemical products, and in general, investments with low capital intensity.

Textiles--In this sector also, the priority objective is improvement of the existing enterprises, for which 77 billion is set aside. On the

FOR OFFICIAL USE ONLY

employment side--the report states--"considerable sacrifices are necessary." By the end of 1982, jobs should decrease by 4,785.

Mechanical Industry--The ENI is working with the Nuovo Pignone [New Pinion] company, which is aiming, in the next years to come, at an even stronger position in the international markets. Furthermore, there will be a greater commitment in the nuclear sector.

COPYRIGHT: 1978 Editoriale del "Corriere della Sera" s.a.s.

11267

CSO: 3104

FOR OFFICIAL USE ONLY

WEST GERMANY

REPATRIATION OF ETHNIC GERMANS FROM USSR DECLINES

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 14 Dec 78 p 3

[Article signed Lgn.]

[Text] Nuremberg, 13 Dec--It seems as though the federal government has had to take some setbacks in its efforts toward the resettlement of Soviet citizens of German descent to the Federal Republic. Hopes generally linked to the Bonn visit by Soviet head of state and party chairman Brezhnev in early May this year obviously have not come true. While the resettler figures during the first 4 months of this year still allowed to assume a tendency of increase--in March, for example, 929 Russians of German origin were registered in the Friedland border-transit camp--they decreased to 657 in May and to 600 in June. The result improved once more in July when 825 resettlers came. But when 503 Russians of German origin arrived in the Federal Republic in August, the number of resettlements reached the tentatively lowest level of the year. In September, the border transit camp at Friedland had accommodated 530 resettlers from Russia and in October 573. With 533 resettlements in November finally, the quota dropped by nearly half in comparison with November 1977 (1,103).

The situation is termed particularly difficult in the Tadzhik and Kirgiz Soviet republics. This paper has learned from reliable sources that in these republics exit permits for which people of German descent often had been waiting for many years, in many cases have been annulled again since about early July. Utterances by the intelligence service as well as by the authorities competent for the resettlement indicate the reasons for the repressive actions. It is obviously difficult to fill with new personnel the gaps caused to many production enterprises by resettlements to the Federal Republic. Thus, reportedly, plant managers have been told that a labor shortage, for instance in the harvest assignment, may not be justified or excused with the absence of personnel of German descent having left the Soviet Union.

What caused concern among the people of German origin was the announcement that the family reunion in the present form might be concluded by the Soviet Union in early 1981. These rumors spread by the intelligence service

FOR OFFICIAL USE ONLY

reportedly are based on considerations to conclude with the Federal Republic an agreement on the future family reunion. The repatriation agreement of 1958 is considered obsolete. Circles of the Soviet intelligence service further are said to have reported that the Soviet Union is also interested in an expanded family reunion in the event of a contractual agreement with the Federal Republic. So far only the closest relatives, as a rule married couples, parents, children, and brothers and sisters have been allowed to leave the country.

In this connection there is talk of financial payments expected from Bonn. In this even the Federal Republic would be facing demands in the amount of billions, which the federal government--if asked--certainly would deny, if only because it does not want to be disturbed in preliminary talks on such a ticklish issue.

An extended family reunion would even increase the number of applicants. According to the findings of the stuttgart "land group of the Germans from Russia", more than 10,000 separated families had applied for family reunion in 1974. Reportedly the German Red Cross has now received about 65,000 applications.

COPYRIGHT: F.A.Z. GmbH, Frankfurt am Main 1978

CSO: 3103

FOR OFFICIAL USE ONLY

WEST GERMANY

EXPERT VIEWS ECONOMIC GROWTH, PROBLEMS FOR 1979

Hamburg CAPITAL in German Dec 78 pp 133, 135-6, 141-2

[Text] The Economy, 1979--In the German economy there will be a more rapid upward movement than in this year, at least until the middle of 1979. Above all, consumption, construction outlays, and exports are imparting their upward impulses. Whether these forces will subsequently also prove to be lasting and will push growth further upwards depends on temperate wage settlements and on a delicately measured-out monetary policy. Prices, which are likely to once again rise more sharply next year, harbor an additional danger, says Professor Norbert Walter, economic research expert at the Kiel Institute for World Economy.

Upward Pressure

The initial conditions for 1979 are more favorable than in the previous year. Consumers and employers are viewing the economic situation with confidence. Among wage and salary earners, anxiety about losing their jobs is disappearing. The firms are handling better than expected their persistent monetary troubles. And finally, in other countries of Western Europe as well demand is reviving, which promises to German businesses additional orders and a greater level of activity. Thus the employers and the consumers are also ready to increase their budgets for investments and consumption respectively. The result: Economic growth is gaining in force and intensity. An increment of 4 percent is probably in the cards.

But the apparently stable situation which is now giving a lift to the economy can quickly change. There have been enough examples of this from recent years, when strikes, lockouts, and deficiencies in connection with foreign demand have shifted the balance in an instant. One quarter, the economy would go up, but in the following quarter it would already be going down again. The enduring, self-sustaining upswing failed to appear. The economists coined for this the concept of the "washboard economy."

Thus in the summer of 1977 a profound lull prevailed, and the economic output stagnated. In the fall and early winter, the businessmen were

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

able to get many orders, and production rose again, only to then abruptly and utterly give way at the turn of the year. The labor conflicts in the printing and metal industries for higher wages and secure jobs disconcerted the economy. The enterprises became restrained with their orders.

After the collective wage agreements were concluded, uncertainty also receded. Since the summer of 1978, once again the expansive forces have clearly dominated. But they are not quite sufficient to offset the losses of the first half of the year. Instead of the aimed-at mark of 3.5 percent more growth, in the economic annual balance sheet of 1978 a half point less than this is likely to emerge. This is nevertheless still a sizable increase, if it is additionally taken into consideration that the population is decreasing and thus fewer persons have to be provided for.

Yet this growth rate is not enough to push the number of unemployed persons below the million-person limit on a yearly average, because structural problems are paramount in the labor market. This is shown by a breakdown of the overall unemployment figure. Half of it is made up of women seeking a job, although their proportion of all persons employed comes to only around a third. Unskilled workers are likewise out of work to a degree greater than the average.

In 1979 as well, nothing of this fundamental weakness of the labor market will change. But to judge economic development simply in view of the underemployment situation reflects a distorted picture of the actual state of affairs, claims Professor Norbert Walter, 34 years old, of the Kiel Institute for World Economy, in an analysis made for CAPITAL. Thus, for this economic research expert, even "the growth rate of next year is acceptable." However, if in the 1979 round of collective wage agreements there are once again strikes, or if the trade unions can force through high wage settlements, then despite the generally favorable initial situation, a renewed trend reversal toward the negative is to be expected.

A new danger is looming: Prices are again climbing more sharply. But if the Bundesbank were to react too strongly to this, perhaps through drastic contraction of the money supply, the interest rates would shoot upwards and would necessarily weaken employment and production. The analysis in detail:

Economic growth: a plus 4 percent; labor market and wages: functional weakness; exports: a plus 7.5 percent; finances and taxes: stimulants.

These stimulate growth:

Investments--6.5%  
Consumption--4.0%  
Exports--7.5%

FOR OFFICIAL USE ONLY

Imports--7.5%  
Profits--11.0%  
Wages and salaries--6.6%

These act as a drag:

Wage costs--2.5%  
Prices--4.0%  
Unemployed--920,000 people

This growth is in the cards: 4.0%

Prof Walter on Economic Growth: + 4 Percent

The summer of 1978 marked the turning point. If the economy has been generally characterized in recent years by a lull, this time the middle of the year brought the beginning of an upward tendency. This powerful upswing is likely to continue until far into the year 1979; certainly monetary and financial policy has so far not shown any departure from its economic stimulation course. The improved conditions, even if only hesitant, in the most important of the countries who trade with the FRG is contributing to this upward development. The strongest stimulants to the upswing in demand continue to come from the building trade, which by now already has on hand well-filled order books. The outlays on construction for next year in terms of real value are likely to be 6 to 7 percent higher than in 1978.

Even if--something which is scarcely conceivable--the monetary and financial policy makers were to once again adopt in the near future a restrictive course, nevertheless in view of the time lags with which production reacts to such interventions, a significant setback for construction investments can be ruled out, at all events for 1979.

The upward trend in housing construction will be especially strong, while the State will seek to avoid through an extension of the middle-term investment programs the worst of the bottlenecks in the civil engineering field. The expansion of building output is not so much determined by how demand develops, but by how quickly the enterprises can expand their capacity. Since it is very hard to obtain skilled workers, indeed to hire even unskilled construction workers, it is only through a modernization of the stock on hand of equipment and machinery than an enlargement of capacity can be achieved.

Stronger investment activity is to be expected in other sectors of the economy as well, such as for example in the electrical industry and in trade, since in these branches sales expectations have firmed up. In machine building, the technical advance made possible by microprocessors makes the purchase of new facilities and machines necessary.



FOR OFFICIAL USE ONLY

The second stable demand component in 1979 is likely to be private consumption once again, which is being held high both by the consumption climate and also by the incomes being received. Because:

it turns out that the tax relief will be even greater than at the beginning of 1978;

the development of wages is likely to correspond to that of the year 1977 on the whole;

in contrast to 1978, pension incomes are rising again;

an expansion of employment can be anticipated.

Already in 1978, the savings ratio reached a relatively low level. Therefore a slight rise in this is at least not to be excluded. Upon the weighing of all these factors, a rise in private consumption of 4 percent is in the cards.

Automobile sales will also have a good level of activity in 1979. The demand is as strong as ever, and the manufacturers are still finding it hard to keep up with the domestic and foreign orders.

Travel likewise has once again a quite prominent position on the expense account lists. And in the favored items of the consumer, home requisites are probably to be forging far forward once again.

However, the basic conditions for a sustained improvement in the propensity to invest are still not fulfilled: temperate wage settlements. Again conflicts are looming between the negotiating parties. In the end, they are hardly likely to turn out otherwise than in the previous year--the effect being that the wage cost burden will continue to remain too high. With other factors things look better.

For example, the prospect has disappeared that the interest rates might drop even further, and therefore the borrowers have abandoned their wait-and-see attitude. Anyway, the view with respect to a deficiency of investment activity does not seem to be justified. Because it has been evolving upwards, in spite of all the gloomy predictions, with remarkable constancy and vigor: Since the nadir in the recession of 1975, at a rate of a good 5 percent per year. In 1979, it is likely that on the average a rate of as much as 6.5 percent will emerge. The computations which show, on the basis of the boom year of 1970, an investment gap for the whole of the 1970's are based on an inadmissible calculation. Because that very year of 1970 fell in a phase of overinvestments, caused by the under-valuation of the mark and the excessive stimulating of the economy by political measures at that time. All the same, the present lamentations about the weakness of investments by all means have their justification. Because since the middle of the 1970's, the number of gainfully employable persons

FOR OFFICIAL USE ONLY

has been climbing due to the entry into gainful activity of age groups with a high birth rate, and the requisite jobs can be provided only through an expansion of production capacity. Yet in important corporative groups there are doubts about whether the labor market problem should be solved by a policy of growth or by a distributing of the work. As long as it remains politically in the air what growth rate the FRG ought to have in the future, an upwards development of private investments is scarcely likely to appear.

In other words: As long as we do not want more growth, it would be surprising if we got more growth on the whole.

On Labor Market and Wages: Functional Weakness

The Federal Government is not making proper headway in the labor market--despite its numerous economic policy programs. This is no wonder, because the present underemployment is less the consequence of a weakness in demand than the consequence instead of a non-functioning labor market.

Thus, the enterprises in the boom branches of construction and vehicles are not finding adequately qualified workers--and this with just under a million unemployed and in addition around 700,000 citizens not registered with the employment offices who are out of work but who at the present time figure that they do not have any chances for a job placement.

Even more clearly than the high number of unemployed is able to do, the structural nature of this set of economic problems is shown by the trend of employment. Today there are no more gainfully active people than in the middle of 1975, although economic growth has amounted to between 3 and 3.5 percent on the average in the last 3 years. The FRG thus owes its increase in prosperity to a higher output per employee. In contrast to this is the United States: There, an annual growth of 4 to 4.5 percent has led to an expansion of employment of about 3 percent. Consequently its rise in productivity was considerably weaker than in the FRG, but the improvement in the employment situation was notably more favorable. The decisive cause of this difference: Whereas in the United States real wages increased only slightly after the oil crisis, they rose strongly in the FRG. This has been reflected in the investment activity. The American businesses are expanding their production capacities, which entails the hiring of additional workers. On the other hand, the German firms are above all taking rationalization measures, and the number of persons employed can thus at best be kept at the same level.

Consequently, the wage agreement negotiating parties have it in their power to achieve full employment once again. It would be an important step in the right direction for the 1979 round of collective agreements

## FOR OFFICIAL USE ONLY

to adopt a cautious course which brings the enterprises a perceptible profit increase. To be sure, for the upcoming wage settlements, constrictive factors can be discerned which increase both the demands of the trade unions and also the willingness of the employers to give in to such demands. Thus at the beginning of the year when wages will be negotiated, prices could rise more sharply. Moreover: The business upswing of the second half of 1978 is thoroughly visible from the statistics, just at the time of the round of wage agreements, so that the trade unions are thus already pressing for extra pay even though the course of the economy as a whole in 1979 is not measurable. What is more, they will be seeking to carry through first of all negotiations in the economically most favored branches. Since--as is customary--the first wage settlement is likely to provide the mark to be aimed at for the entire round of wage agreements, there is a danger that this time the agreements will prove to be too high.

Aside from the quarrel over raise percentages, a protecting of the social welfare in connection with the wage raises will probably be once again up for debate. Many trade unions maintain that the tax relief favors especially those who draw higher incomes. They are therefore demanding wage settlements which provide for a larger raise for the lower wage groups. This could worsen even more the situation of the less skilled workers: Such special wage raises trigger investments by means of which jobs of unskilled workers above all are removed by rationalization measures.

A third important issue of the round of wage agreements is certainly the shortening of working time. Whereas the resistance of the businesses against reducing the work week seems to be extensive enough to stave off the trade union demands at least in 1979, a slight lengthening of leave time is probably not avoidable.

Employees' capital formation is likely to be only a peripheral issue, as it has been for decades now. Genuine advances will be made by this concept only at the individual company level--if the employers want it. Because company-specific capital formation dissipates, in the trade-union view, the forces of the employees, who might thus develop an increasing interest in their own company. Thereby, that which justifies the existence of the trade unions is lost: The state of being in solidarity with their own class. However, employers have not on the whole as yet drawn the conclusion from this that in capital formation there lies a chance to improve their position by making into partners those workers and employees who have already become "rich."

In general--an easing of the tension between labor and management, especially on the question of wages, is a prerequisite for overcoming the problems which grow out of the increasing labor supply. Age groups which had a high birth rate are now beginning their working life. In fact, for the first time next year an increase in employment is

## FOR OFFICIAL USE ONLY

again anticipated, which is likely to amount to about 1 percent--that is, to around 200,000 persons. But additional employment need not lead without fail to a decrease in the number of unemployed, as developments in other industrial countries prove. In these places it has been observed that more persons from the so-called latent reserve of the labor market are reporting back for work and are being hired as the employment situation improves somewhat. It is probable, however, that the number of unemployed people is likely to be reduced by around 100,000 persons.

Exports: To increase by 7.5 Percent

All monetary oscillations in recent months notwithstanding, German exports are increasing, for example in their amount of the world trade.

It has proved possible to raise exports to almost the same degree as imports. To be sure, these export quotas can often be maintained only by the expedient of German firms consciously accepting in their pricing a narrowing of their profit margins.

Yet this compression is frequently overestimated. Because sale proceeds have not in turn fallen so very much. The reason: To be sure, the dollar has tumbled and with that the value of the mark has automatically risen. But the U. S. trade makes up only a small portion of the total German exchange of goods. Likewise favorably operating for the German exporters was the fact that the Swiss franc and the Japanese yen have gained much more strongly even than the mark in exchange-rate value.

The fall of the dollar brings even in the short run a cost advantage to the FRG. Because many important raw material prices are fixed in dollars, such as for example crude oil. The devaluation of the U. S. currency thus enables German enterprises to buy crude oil at lower prices. Upshot: Although the rapid changes in the exchange rates have increased uncertainty, the competitiveness of the domestic exporters has not been lastingly impaired. Consequently the German export trade is likely to profit also by the stimulation of demand in the West European countries which is looming for the coming year. The American business outlook alone is likely to weaken next year--but this is something which does not cancel out the powerful European stimulants to world trade, because of our small share of trade with the United States. Since the European countries will in the future demand more goods, the Americans will be able to sell more goods and to make up the deficit in their balance of trade. With that, one of the fundamental causes of the dollar's weakness might be eliminated.

In connection with the developing countries and the nations of the Eastern Bloc, trade developments depend decisively on whether they obtain international credits in order to cover their import needs. The conditions for this have been considerably improved, following the

FOR OFFICIAL USE ONLY

resolutions of the International Monetary Fund to provide new credit facilities. A new wave of protectionist measures, which retards world trade, is not to be expected because the employment situation in most of the industrial countries is not growing any worse and thus the pressure for more import restrictions not only on the part of the trade unions but also on the part of the enterprises is scarcely becoming any greater. Just as certainly will the desirable liberalization of world trade probably make very little headway, in view of the continuing grave labor market problems.

How the monetary relations of the mark and the competitiveness of German enterprises further develop is also dependent on what happens with the plan on establishing in Western Europe an extended zone of stable exchange rates. In this association, the interests of the partners with weak currencies--such as for example France--lie predominantly in introducing stability, whereas the stronger participants such as the FRG are hoping to gain a competitive advantage in the markets of the member countries. But the prospects are slight of success in carrying through with these plans in opposition to the forces on the foreign exchange market, as the experiences with the "snake" have taught us.

The predicted export increase of 7.5 percent seems achievable even if the monetary alliance were to not materialize at all or were to fall to pieces after just a few months. Because even the regime of flexible exchange rates which would then continue to prevail obviously does not prevent the international integration of the markets from continuing.

This is sufficiently shown by the experiences to date with the fluctuating exchange rate parities. Whereas total economic production in the industrial countries increased by around 25 percent in the 1970's, German foreign trade rose by 50 percent. Despite a strong upward revaluation, exports in this decade have so far risen just as strongly as imports.

However, this stable upward development was connected with a redirecting of the flows of goods. To be sure, the main portion of German exports is still going to the European trading-partner nations, and the main portion of our imports comes from the same countries. But both the oil-exporting countries and the Eastern Bloc nations have more and more become a stabilizing element in German foreign trade.

In the future, trade with the nations of the Third World offers above all great prospects for growth. They have high import needs. Yet they lack the capital for financing these imports. One task of the industrial countries and thus of the FRG also should be to make available credits to these nations, for example within the framework of developmental aid. The German economy would not be the least to profit from the augmenting of their assets, since it could then export more to the developing countries.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

The same effect would be achieved if the Bonn government were to set up a stockpile of important raw materials. It would have to buy such ores in the developing countries, which could pay for more imports with the proceeds from the raw material trade.

On Finances, Taxes: Stimulants

The Federal Government is again placing its hopes in a policy of growth. Therefore it is earmarking more funds for research investments, to help the enterprises in the development of new goods and techniques which can guarantee production and employment for tomorrow. Moreover, it is lowering the income tax and wages tax in order that for the employees their work may once again be rewarding. Bonn is putting through this plan, which is oriented towards the medium term, against the opposition of the trade unions, which have endorsed a rapid, dramatic raising of the entire public expenditures. Yet entirely without the trade unions nothing can be done. Therefore, the Federal Government also had to enclose within its growth package improvements in connection with children's allowances and maternal protection: Measures which merely redistribute the incomes of today, but do not provide for the incomes of tomorrow.

The upward adjustment of the value-added tax is also growth-impairing, since it--like every additional burdening of the citizens by the State--blocks incentives to work. And after all: It does not relieve the capital market, even though it is by this that the Federal Government justifies the additional charge. Thus it is hoping for more tax revenues and through this a smaller budget deficit, which must be made up through loans in the capital market. Up to this point, the official calculation might prove right. Except, the higher bill has to be paid either by the consumers or by the businessmen. If the firms cannot pass on the additional percentage point in their prices, then it will depress profits. Result: The enterprises have less money to finance their investments from their own pockets. Instead of the State, it is now they who must raise loans in the capital market. But if the consumers are asked to pay by way of higher prices, their expenditures will rise. Thereby the savings fraction of their incomes necessarily drops. Less money flows into the capital market, which in turn cancels out the effects of the less extensive borrowing by the government. Upshot: At bottom everything stands, one way or another, as it was.

Nevertheless, the enlivening stimulants of the new package are dominant. The relief connected with the wages tax and income tax could ease the situation in the round of wage negotiations. Because the investment propensity of the enterprises is improving. But even if the trade unions remain adamant and ignore this relief in the things they insist on, the program still has a demand-increasing effect, since the disposable incomes are thereby raised.

FOR OFFICIAL USE ONLY

With an improving business outlook, the springs of tax revenue will also more strongly bubble forth. Since at the same time the expenditures for the unemployed are dropping because of the somewhat more favorable employment situation and a continuation of the curbing of costs in the public health sector is to be anticipated, the national deficit in 1979 for the Federal Government, Laender, municipalities, and social insurance is not likely to exceed 65 billion marks. In view of this deficit, many a citizen will criticize the public budget policy as unsound. But just as little as it can be figured out from the financial deficit of a company whether a sound or an unsound business policy is being followed, can the quality of the financial policy be measured by the level of the national deficit. Whenever indebtedness results from the fact that private and overall economic forces of growth are being stimulated, soundness is a given fact. In order to promote the forces of growth, interventions in the distribution of income--which inhibit the will to work--ought to be curtailed. This involves for example abandoning the functionless promoting of savings. The abolition of the entire trade tax would seem to be just as urgent. The income and wages tax on the one hand and the value-added tax on the other should in the future alone form the pillars of the tax system. To be sure, these renovations in the national revenues would in the short run bring shortfalls in tax revenues and thus a higher deficit. With this, those limits would be exceeded which at present are seen by the Bundesbank as just still tolerable. An additional conflict between the government and the Bundesbank is looming in connection with the policy on stability. Because in the course of next year the rise in prices is likely to accelerate to almost 4 percent. This is a consequence of sins from the past: The excessive expansion of the monetary supply, which commenced as long ago as late in the summer of 1977. It invariably turns out that such an expansion is followed, after an interval of a year and a half, by a rise in the rate of price increases.

Pointing in the same price-raising direction are the bottlenecks in the construction market. Any relief by way of foodstuffs, such as has been the case in the last 2 1/2 years, is no longer to be expected. Also the phase of price diminutions in connection with import prices is likely to be coming to an end, because the mark is unlikely to continue to be upvalued in terms of real value, and the phase of stable world market prices seems to be drawing to a close. Whereas in connection with the accelerating price upswing the Bundesbank has to be interested in the introduction of stabilization, the Federal Government is anxious to by all means prevent a recessive development in conjunction with the election year of 1980. Even if the Bundesbank only throttles gently the increase in the monetary supply, a slight rise in the interest rates could not be avoided, since at the same time the demand of the consumers and businesses for loans is climbing. If Bonn continues to remain expansive and if Frankfurt tries to put on the brakes more sharply, a rapid increase in interest rates could be expected in 1979. For even next year the danger would exist that the upswing just under way might come to an end.

COPYRIGHT: 1978 Gurner + Jahr AG &amp; Co.

12114

26

CSO: 3103

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

WEST GERMANY

SUBSIDIZED RESEARCH TO CREATE NEW JOBS

Hamburg STERN in German 23 Nov 78 pp 252-255

[Article by Werner Heilemann: "Financial Injections: Money To Revive Tired Managers"]

[Text] Volker Hauff, minister for research and technology, wants to create new jobs by pouring additional billions into new technologies.

In the Saudi Arabian desert, Volker Hauff, minister for research, had an original experience. The rich shaykhs were desperately looking for a producer of equipment for the desalination of sea water, and they were making inquiries of Japanese and West German firms. Now the Japanese have come up with an item which will be worth millions, because Krupp and Demag had to give up after preliminary negotiations: They lacked the technical know-how--Japan's industry has a monopoly in this area. After the lost battle for sales, Hauff was struck by this realization: "Our heroes are simply too tired."

The minister for research knows how to revive tired business managers: money. For that reason the Federal Government wants to increase the 1979 budget for this ministry to DM 5.6 billion (a 14-percent increase compared to 1978). And rightfully so, as is evident in a still unpublished study by the Prognos AG, a Swiss economic advisory service. The 49-page paper came to the conclusion that in recent years the promotion of projects and innovations created almost 150,000 jobs and approximately 300,000 jobs resulted. According to Hauff, this proves that the promotion of research is definitely a useful means for labor market policies. He believes: If the FRG shows no more interest in new technology than it has to date, no new jobs could be created to take the place of those which are eliminated because of expediency.

According to Prognos, there was a danger of a "technological vacuum," because at the beginning of the 1970's the German industry had no desire to put money into "uncertain new and continuing technical developments." The vacuum was only prevented by doubling the amount of public funds for research: "Research and development are indispensable components of a liberal foreign trade policy."

FOR OFFICIAL USE ONLY



FOR OFFICIAL USE ONLY

Whoever continues to offer stale ideas, however, will not receive a single tired German mark from Hauff: "I want innovation, not subsidy." To date, from 1975 until 1978, the largest sums were collected by

- nonnuclear energy research (107,000 jobs), DM 1 billion;
- data processing (51,000 jobs), DM 1.2 billion;
- electronics (40,000 jobs), DM 280 million;
- chemical technology (30,000 jobs), DM 52 million.

Occasionally promotional policies directed in this manner even lead to the establishment of new firms. For instance, after they were promised DM 160 million by the Ministry for Research, AEG and Wacker-Chemietronic in Upper Bavaria decided to found a subsidiary for the specific purpose of manufacturing solar-cell generators. Experts believe that the solar-cell market will be good in 15 years and well worth DM 20 billion.

In the Ruhr area, DM 12 million is being spent on testing a "directional guidance system" for automobile drivers, which is supposed to prevent traffic jams. In the case of a nation-wide introduction, tens of thousands of jobs would be assured because of extensive orders. Automobile suppliers will also profit from the development of a new nonlocking brake system, which is being financed with a grant of almost DM 8 million.

Even the resignation in the suffering shipbuilding industry is being helped through money from Bonn. For instance, the Luehring Shipyard in Brake on the Lower Weser, supported by the Ministry for Research, has begun the development of a "twin-hull multipurpose vehicle" to combat oil pollution. In the opinion of experts: "This is an opportunity to penetrate an existing vacuum in the market. Prospects for export are good." And Prognos figures that in addition to the jobs which are directly created or assured with the money from the Ministry for Research, 660,000 more workers will owe their jobs to orders which will result from future research.

Even if Otto Graf Lambsdorff, minister for economics, views these developments with suspicion: Hauff wants to continue the present course, reassured by the expert opinion of Prognos AG at a cost of DM 150,000, and he wants to create a mood of speculative enterprise in the German economy: "We again need pioneer spirit among business managers and the willingness to assume risks."

COPYRIGHT: 1978 STERN

8991

CSO: 3103

END